

TOBACCO PRODUCTS TAX
RCW 82.26

Tax Base The sale, use, consumption, handling or distribution of cigars, pipe tobacco, chewing tobacco and other forms of tobacco, except cigarettes.

Tax Rate 129.42 percent of the wholesale price, broken down as follows:

- A basic tax of 45 percent (RCW 82.26.020(1)).
- A surtax of 7 percent of the basic rate, amounting to 3.15 percent (RCW 82.26.020(3)).
- 16.75 percent for funding of water quality improvements (RCW 82.26.025(1)).
- 10.0 percent for the health services account (RCW 82.26.020(4)).
- A surtax of 93.75 percent of the taxes imposed under RCW 82.26.020 for the health services account, amounting to a rate of 54.52 percent (Section 4, Initiative 773, adopted November 6, 2001).

Levied by State

Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2001	\$25,420	6.4%	0.2%
2000	23,894	5.0	0.2
1999	22,755	3.5	0.2
1998	21,981	18.7	0.2
1997	18,521	(4.2)	0.2
1996	19,331	6.2	0.2
1995	18,197	(0.8)	0.2
1994	18,335	18.9	0.2
1993	15,421	11.5	0.2
1992	13,829	15.5	0.2

A breakdown of the FY 2001 tobacco products tax collections (\$ in thousands) follows:

General Fund	\$16,723
Water Quality Account	- -*
Health Services Account	2,844
Drug Enforcement Account	2,926
Salmon Recovery Account	2,926
Total FY 2001 Tobacco Products Tax	\$25,420

*Receipts temporarily diverted to salmon recovery account and violence reduction/drug enforcement account for FY 2000-2001.

Administration Department of Revenue. The tax is reported on the combined excise tax return (Form #40 2406) by wholesalers or distributors of tobacco products.

Distribution of Receipts

- (1) 45% rate - state general fund
- (2) 3.15% surtax - state general fund
- (3) 16.75% rate - water quality account for use in statewide water improvement programs through fiscal year 2021; thereafter these receipts will go to the general fund. (NOTE: all proceeds of this tax were diverted from the water quality account for FY 2001 and FY 2002: one-half to the violence reduction/drug enforcement account and one-half to a new salmon recovery account.)
- (4) 10.00% rate - health services account
- (5) 54.52% rate - health services account. (See discussion under the Cigarette Tax, Distribution of Receipts for explanation of the disposition of revenues from the new 60 cent cigarette tax and the 54.52 percent tobacco products tax, pursuant to Initiative 773.)

Exemptions, Deductions and Credits

- Products which may not be taxed under the Constitution or laws of the federal government.
- Credit for taxes paid on products that are subsequently shipped out of state.

History

The tax was established in 1959 at a rate of 25 percent of the wholesale price with all proceeds going to the state general fund. The rate was increased to 30 percent in 1965 and to 45 percent in 1971. Surtaxes were applied during 1982 (4 percent on May 1, increased to 7 percent on August 1), resulting in the current basic rate for the general fund. The additional tax of 16.75 percent for water quality programs was added in 1986 and the 10 percent rate for health care was established in 1993. In 1999 the portion of the tax for water quality was diverted for two years (FY 2000 and 2001); one-half of the 16.75 percent tax went to the violence reduction/drug education account and the other one-half went to the salmon recovery account.

Initiative 773 was adopted on November 6, 2001. This provided a major increase in both the cigarette and tobacco products taxes, effective January 1, 2002, with the additional revenues dedicated to health services. As a result of the initiative, the tobacco products tax rate went from 74.9 to 129.42 percent.

Discussion/Major Issues

During 2000 there were an average of about 120 taxpayers that reported tobacco products tax. The tax at the wholesale/distributor level serves to increase the retail price by nearly 130 percent above the wholesale price, plus the retailer's markup. Furthermore, retail sales and B&O taxes apply to the amount of the retail price which includes the tobacco products tax. The combined effect amounts to a relatively heavy tax rate, compared with similar excise taxes in other states.

Concern has been expressed over the lack of correlation between consumption of tobacco products and funding of water quality improvements.

Another issue currently affecting collection of the tax is the possibility that wholesalers may begin to purchase tobacco products tax-free from tribal vendors.